

**TOWN OF LEXINGTON
CONTRIBUTORY RETIREMENT SYSTEM**

Actuarial Valuation Report

January 1, 2014

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Report Summary:

Highlights

January 1, 2012

January 1, 2014

Contributions

Funding Schedule FY 2015	\$5,005,537	\$5,005,537
Funding Schedule FY 2016	5,205,537	5,255,537

Funded Ratios

GAS No. 25	78.3%	82.3%
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Participants

Actives	632	646
Retirees and Beneficiaries	382	361
Inactives	214	260
Disabled	<u>0</u>	<u>31</u>
Total	1,228	1,298

Payroll

Payroll of Active Members	\$31,186,555	\$32,850,691
Average Payroll	49,346	50,852

Normal Cost

Employer	\$1,948,621	\$1,413,856
Employee	2,682,882	2,860,304
Administrative Expenses	<u>0</u>	<u>200,000</u>
Total	\$4,821,213	\$4,474,160

Actuarial Accrued Liabilities

Actives	\$77,559,598	\$75,054,833
Retirees, Beneficiaries, Disabilities and Inactives	<u>77,347,536</u>	<u>83,079,764</u>
Total	\$154,907,134	\$158,134,597

Actuarial Value of Assets

<u>121,339,690</u>	<u>130,168,913</u>
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Unfunded Actuarial Accrued Liabilities

\$33,567,444	\$27,965,684
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Introduction

This report presents the findings of an actuarial valuation as of January 1, 2014, of New Bedford Contributory Retirement System.

The actuarial valuation is based on:

- Provisions Chapter 32 of the Massachusetts General Laws, "M.G.L", as of January 1, 2014.
- Employee data provided by the Retirement Board
- Asset information reported to the Public Employee Retirement Administration Commission by the Town of Lexington Contributory Retirement System
- Actuarial assumptions approved by the Retirement Board

The valuation and appropriation forecast are prepared in accordance with Chapter 32 of the M.G.L. as of January 1, 2014.

The valuation and forecast do not account for:

- Any subsequent changes in the law
- State-mandated benefits
- Cost-of-living increases granted to retired members between 1982 and 1997. The cost of these benefits has been assumed by the State under Proposition Two and One-Half.

Actuarial Experience

In performing the actuarial valuation, various assumptions are made regarding such factors as mortality, retirement, disability, and withdrawal rates as well as both payroll, salary increases, and investment returns. A comparison of the current valuation and the prior valuation is made to determine how closely actual experience corresponded to anticipated occurrences. This analysis of the system provides insight into the overall quality of the actuarial assumptions and helps explain any change in the annual appropriation.

During the last year, the total unfunded actuarial accrued liability decreased by 6.2% to \$31,491,644 under the previous actuarial assumptions. The decrease is the result of net favorable actuarial experience during the preceding years. The sources of actuarial (gains) and losses are as follows:

Assets	9,223,562
Liability	<u>(11,737,882)</u>
Total Actuarial (Gain) / Loss	(2,514,319)

The salary scale assumption was changed this year by reducing the previous valuation rates by .0175. The changes reduced the unfunded accrued liability by \$3,525,960 to \$27,965,684.

Actuarial Costs and Liabilities:

Normal Costs

The normal cost is the sum of the individual normal costs determined for each member as if the assumptions underlying the cost determinations had been exactly realized. An individual normal cost represents that part of the cost of a member's future benefits which are assigned to the current year as if the costs are to remain level as a percentage of the member's pay. Benefits payable under all circumstances (i.e., retirement, death, disability and terminations) are included in this calculation. Anticipated employee contributions to be made during the year are subtracted from the total normal cost to determine employer normal cost. The total normal cost is divided by total payroll to determine the normal cost as a percent of pay. The normal cost is shown in Table I.

Table I

	<u>January 1, 2012</u>	<u>January 1, 2014</u>
Superannuation	\$4,821,213	\$2,800,259
Termination	n/a	586,192
Death	n/a	223,778
Disability	n/a	663,931
Administrative Expenses	<u>\$0</u>	<u>\$200,000</u>
Total Normal Cost	\$4,821,213	\$4,474,160
% of Pay	15.5%	13.6%
Employee Contributions	\$2,682,882	\$2,860,304
% of Pay	8.6%	8.7%
Employer Normal Cost	\$2,138,331	\$1,613,856
% of Pay	6.9%	4.9%

Actuarial Accrued Liabilities

The actuarial accrued liabilities (AAL) represents today's value of all benefits based on the past service of the actives and inactive. The AAL can be compared to the assets to determine the funded status of the Plan. The value of these earned benefits is shown in Table II below.

Table II

	<u>January 1, 2012</u>	<u>January 1, 2014</u>
Actives		
Superannuations	\$77,559,598	\$70,621,833
Termination	n/a	(1,037,342)
Death	n/a	1,948,427
Disability	n/a	3,521,915
Retirees and Inactives		
Retirees and Beneficiaries	\$77,347,536	\$72,904,270
Terminated (Refund)	n/a	1,816,698
Disabled	<u>n/a</u>	<u>8,358,796</u>
Total	\$154,907,134	\$158,134,597

Present Value of Future Benefits

The present value of future benefits represents today's value of all benefits earned by the inactive participants as well as all benefits earned and expected to be earned in the coming years by the active participants. The difference between the present value of future benefits and the present value of actuarial accrued liabilities is the value of benefits to be earned in the coming years. The value of the total expected benefits is shown in Table III.

Table III

	<u>January 1, 2012</u>	<u>January 1, 2014</u>
Actives		
Superannuation	n/a	\$92,136,959
Termination	n/a	3,800,329
Death	n/a	3,631,356
Disability	n/a	9,358,012
Retirees and Inactives		
Retirees and Beneficiaries	n/a	\$72,904,270
Terminated (Refund)	n/a	1,816,698
Disabled	n/a	<u>8,358,796</u>
Total	n/a	\$192,006,420

Funded Status and Appropriations:

Market Value of Plan Assets

The trust fund composition on a market value basis is shown in Table IV.

Table IV

	<u>January 1, 2012</u>	<u>January 1, 2014</u>
Cash equivalents	\$63,085	\$6,554,423
Fixed income securities	7,433,212	13,431,604
Equities	76,189,274	80,863,397
International	15,258,399	12,446,561
Real Estate	2,840,405	1,974,953
Other	0	13,013,636
PRIT Fund	0	0
Accounts receivable	2,167,166	2,526,142
Accounts payable	(56,694)	(59,224)
Accrued income	<u>0</u>	<u>0</u>
Total Market Value	\$104,215,773	\$133,227,835
Total Actuarial Value	\$121,339,690	\$130,168,913

Actuarial Value of Assets

The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (7.75%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a four year period. This preliminary actuarial value is not allowed to differ from the market value of assets by more than 20%. The calculation of the actuarial value of assets as of January 1, 2014 is presented in Table V.

Table V

	<u>January 1, 2014</u>
(1) Market value at January 1, 2013	\$118,557,142
(2) 2013 Contributions	\$8,741,722
(3) 2013 Payments	(\$9,835,894)
(4) Net interest adjustment at 7.75% on (1), (2), and (3) to December 31, 2013	\$9,145,779
(5) Expected market value on January 1, 2014 (1) + (2) + (3) + (4)	\$126,608,749
(6) Actual market value on January 1, 2014	\$133,227,835
(7) 2013 (Gain) / Loss	(\$6,619,086)
(8) 80% of 2013 (Gain) / Loss	(\$5,295,269)
(9) 2012 (Gain) / Loss	(\$6,586,737)
(10) 60% of 2012 (Gain) / Loss	(\$3,952,042)
(11) 2011 (Gain) / Loss	\$17,291,945
(12) 40% of 2011 (Gain) / Loss	\$6,916,778
(13) 2010 (Gain) / Loss	(\$3,641,945)
(14) 20% of 2010 (Gain) / Loss	(\$728,389)
(15) Actuarial value on January 1, 2014, (6) + (8) + (10) + (12) + (14) but not less than 80% nor greater than 120% of (6)	\$130,168,913
(16) Ratio of actuarial value to market value	97.70%
(17) Actuarial Value Return for 2012	-0.88%
(18) Actuarial Value Return for 2013	9.46%
(19) Market Value Return for 2012	14.08%
(20) Market Value Return for 2013	13.36%

Unfunded Actuarial Accrued Liabilities

Under the Entry Age Normal Actuarial Cost Method, the Actuarial Accrued Liability represents what the accumulated assets would have been as of the valuation date if:

- current plan provisions and assumptions had always been in effect,
- experience conformed exactly to assumptions, and
- the normal cost had been contributed each year since inception.

The actuarial value of the Fund's assets as of the end of the prior year are subtracted from the Actuarial Accrued Liability (AAL) to determine the Unfunded Actuarial Accrued Liability (UAAL) as of the valuation date. Over time, annual pension contributions will accumulate Plan assets equal to the AAL, and the UAAL will be eliminated. Thereafter, annual contributions equal to the normal cost will keep the Plan's assets and liabilities in balance. The UAAL is developed in Table VI.

Table VI

	<u>January 1, 2012</u>	<u>January 1, 2014</u>
Actuarial Accrued Liability	\$154,907,134	\$158,134,597
Actuarial Assets	<u>121,339,690</u>	<u>130,168,913</u>
Unfunded Actuarial Accrued Liability	\$33,567,444	\$27,965,684
Funded Status	78.3%	82.3%

Appropriations

The pension appropriation for the upcoming fiscal years have been calculated in accordance with the requirements set forth in Sections 22D and 22F of Chapter 32 of the Massachusetts General Laws. These amounts were calculated to comply with the June 30, 2040, full funding mandate for all accrued liabilities. The pension appropriation is the sum of the:

- Employer normal cost,
- Increasing amortization of the unfunded actuarial accrued liability by June 30, 2025
\$ 27,527,165 over 11 years with 4.0% increasing payments
- Level amortization of the Early Retirement Incentive by June 30, 2015
\$ 220,438 over 1 years
- Interest adjustment for payments contributed quarterly over fiscal year.

The Board has elected to adopted a Funding Schedule that increase \$250,000 per year, then reverts back to the normal year-to-year increases in payments. The pension appropriation is shown in Table VII.

Table VII

	<u>January 1, 2012</u>	<u>January 1, 2014</u>
Normal cost	\$2,138,331	\$1,613,856
Amortization payment of the accrued liability	2,769,426	2,968,706
Amortization payment of ERI liability	236,056	220,438
Amortization payment of Holiday liability	<u>233,533</u>	<u>218,081</u>
Total cost	\$5,377,346	\$5,021,081
% of Pay	17.2%	15.3%
Fiscal 2015 cost	\$5,005,537	\$5,005,537
Fiscal 2016 cost	\$5,205,537	\$5,255,537

Appropriation Forecast

The following exhibit forecasts employer and employee contributions over the next 32 years under the adopted funding schedule.

Note that the forecast is based upon an "open group" method. This method assumes that sufficient employees will be hired each year to keep the number constant. The total payroll of the system is expected to increase 4% per year. The employee contribution rate is expected to increase to 10.5% by 2044 as members contributing base percentages 5%, 7%, and 8% are replaced by new members, whose base contribution is 9%. Payments are assumed to be made at the beginning of the year.

The employer total cost is expected to increase during the next 11 years until the unfunded liabilities are completely paid off, at which time only the normal cost will remain. The total cost represents 15.2% of payroll, decreasing to 14.9% by the time the unfunded liabilities are fully paid off, leaving only a normal cost of about 4% thereafter.

H:\Lexington\2014\Lexington14_Val New Assumptions.xlsm\Approp. Results

Appropriation Forecast

Fiscal			Employer	Amortization	Employer	Employer	
Year		Employee	Normal Cost	Payments	Total Cost	Total Cost	Funded
Ending	Payroll*	Contribution	with Interest	with Interest	with Interest	% of Payroll	Ratio %**
2015	\$32,850,691	\$2,860,304	\$1,722,405	\$3,283,132	\$5,005,537	15.2	82.1
2016	34,328,972	3,019,794	1,767,067	3,488,470	5,255,537	15.3	83.7
2017	35,873,776	3,187,846	1,812,261	3,693,276	5,505,537	15.3	85.2
2018	37,488,096	3,364,907	1,857,944	3,897,593	5,755,537	15.4	86.8
2019	39,175,060	3,551,449	1,904,068	4,101,469	6,005,537	15.3	88.4
2020	40,937,938	3,747,965	1,950,582	4,304,955	6,255,537	15.3	90.1
2021	42,780,145	3,954,976	1,997,425	4,508,112	6,505,537	15.2	91.9
2022	44,705,251	4,173,029	2,044,535	4,711,002	6,755,537	15.1	93.8
2023	46,716,988	4,402,698	2,091,840	4,913,697	7,005,537	15.0	95.8
2024	48,819,252	4,644,586	2,139,262	5,116,275	7,255,537	14.9	97.9
2025	51,016,119	4,899,329	2,186,716	63,874	2,250,590	4.4	100.1
2026	53,311,844	5,167,593	2,234,109	0	2,234,109	4.2	100.0
2027	55,710,877	5,450,080	2,281,340	0	2,281,340	4.1	100.0
2028	58,217,866	5,747,526	2,328,297	0	2,328,297	4.0	100.0
2029	60,837,670	6,060,706	2,374,860	0	2,374,860	3.9	100.0
2030	63,575,366	6,390,434	2,420,899	0	2,420,899	3.8	100.0
2031	66,436,257	6,737,564	2,466,273	0	2,466,273	3.7	100.0
2032	69,425,889	7,102,996	2,510,828	0	2,510,828	3.6	100.0
2033	72,550,054	7,487,672	2,554,399	0	2,554,399	3.5	100.0
2034	75,814,806	7,892,586	2,596,806	0	2,596,806	3.4	100.0
2035	79,226,472	8,318,780	2,637,858	0	2,637,858	3.3	100.0
2036	82,791,663	8,693,125	2,756,562	0	2,756,562	3.3	100.0
2037	86,517,288	9,084,315	2,880,607	0	2,880,607	3.3	100.0
2038	90,410,566	9,493,109	3,010,234	0	3,010,234	3.3	100.0
2039	94,479,042	9,920,299	3,145,695	0	3,145,695	3.3	100.0
2040	98,730,599	10,366,713	3,287,251	0	3,287,251	3.3	100.0
2041	103,173,476	10,833,215	3,435,177	0	3,435,177	3.3	100.0
2042	107,816,282	11,320,710	3,589,760	0	3,589,760	3.3	100.0
2043	112,668,015	11,830,142	3,751,299	0	3,751,299	3.3	100.0
2044	117,738,075	12,362,498	3,920,108	0	3,920,108	3.3	100.0
2045	123,036,289	12,918,810	4,096,513	0	4,096,513	3.3	100.0
2046	128,572,922	13,500,157	4,280,856	0	4,280,856	3.3	100.0

* Calendar year

** As of 1/1 prior to beginning of fiscal year

GASB Statements No. 25 and No. 27

Effective for periods beginning after June 15, 1997, the Governmental Accounting Standards Board (GASB) requires the disclosure of pension related liabilities for public employer financial statements in accordance with Statements 25 and 27. These statements, which replace GASB Statement No. 5, must be adhered to by any public employee retirement system that follows Generally Accepted Accounting Principles (GAAP).

These disclosures are intended to establish a reporting framework that distinguishes between:

- current financial information about plan assets and financial activities,
- actuarially determined information from a long-term perspective,
- the funded status of the plan, and
- progress being made in accumulating sufficient assets to pay benefits when due.

Footnote disclosures required by GASB Statement No. 25 and 27 include a description of the plan, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations. As a result of the oversight of the Public Employees Retirement Administration Commission (PERAC) and the conversion of unpaid contributions to pension related debt, the Net Pension Obligation (NPO) as required by Statement No. 27 will effectively always be equal to \$0. The required disclosure information is shown in Table VIII.

Table VIII

	<u>January 1, 2012</u>	<u>January 1, 2014</u>
(1) Actuarial Accrued Liability	\$154,907,134	\$158,134,597
(2) Actuarial Value of Assets	<u>121,339,690</u>	<u>130,168,913</u>
(3) Unfunded Actuarial Accrued Liability	\$33,567,444	\$27,965,684
(4) Funded Ratio (2)/(1)	78.3%	82.3%
(5) Covered Payroll	\$31,186,555	\$32,850,691
(6) UAAL as a percentage of payroll: (3)/(5)	107.6%	85.1%
(7) Annual Required Contribution (ARC)	\$5,205,537	\$5,005,537
(8) Net Pension Obligation	\$0	\$0

PERAC Annual Statement
APPENDIX PAGE 3
ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Sherman Actuarial Services as of January 1, 2014.

The normal cost for employees on that date was:	\$2,860,304	8.7% of pay
The normal cost for the employer was:	1,413,856	4.3% of pay

The actuarial liability for active members was:	\$75,054,833
The actuarial liability for retired and inactive members was:	83,079,764
Total actuarial accrued liability:	158,134,597
System assets as of that date:	130,168,913
Unfunded actuarial accrued liability:	\$27,965,684

The ratio of system's assets to total actuarial liability was	82.3%
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The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.75%
Rate of Salary Increase:	3.50%

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
01/01/14	\$130,168,913	\$158,134,597	\$27,965,684	82.3%	\$32,850,691	85.1%
01/01/12	121,339,690	154,907,134	33,567,444	78.3%	31,186,555	107.6%
01/01/10	118,558,000	133,456,000	14,898,000	88.8%	28,239,000	52.8%
01/01/08	123,209,000	122,543,000	(666,000)	100.5%	25,714,000	-2.6%
01/01/06	98,759,000	111,724,000	12,965,000	88.4%	22,150,000	58.5%
01/01/04	83,050,000	98,031,000	14,981,000	84.7%	20,464,000	73.2%
01/01/02	77,015,000	86,500,000	9,485,000	89.0%	20,803,000	45.6%

GASB Statements No. 67 and No. 68

Effective for periods beginning after June 15, 2013, the Governmental Accounting Standards Board (GASB) requires the disclosure of pension related liabilities for public employer financial statements in accordance with Statements 25 and 27. These statements, which amend GASB Statements No. 25 and No. 27, must be adhered to by any public employee retirement system that follows Generally Accepted Accounting Principles (GAAP).

These disclosures are intended to establish a reporting framework that distinguishes between:

- current financial information about plan assets and financial activities,
- actuarially determined information from a long-term perspective,
- the funded status of the plan, and
- progress being made in accumulating sufficient assets to pay benefits when due.

The statement requires the system to present two financial statements – a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position presents the following items as of the end of the plan's reporting period, as applicable:

- Assets
- Deferred outflows of resources (consumption of net assets by the employers that is applicable to a future reporting period)
- Liabilities
- Deferred inflows of resources (acquisition of net assets by the employers that is applicable to a future reporting period)
- Fiduciary net position (Assets + Deferred outflows – Liabilities – Deferred inflows)

The system is considered a cost-sharing multiple-employer pension plan since pension obligations exist for employees of more than one employer and plan assets can be used to pay the benefits of the employees of any employer.

This report does not include all items required under GASB Statements No. 67 and No. 68. Rather, it provides all items required that are not readily available from other sources such as the Annual Statement of the Financial Condition prepared by the Board, Chapter 32 of the Massachusetts General Laws and investment reports prepared by the plan's investment consultant.

Discount Rate

The discount rate, and all other actuarial assumptions, are the as those described in Exhibit 6. The discount rate was selected based on a projection of employer and employee contributions, benefit payments, expenses and the long term expected rate of return on trust assets. Under Chapter 32 of the Massachusetts Laws, employers are required to make the necessary contributions to the trust such that the plan reaches a full funding status by 2040. In addition, Chapter 32 also gives the Retirement Board the right to go directly to the Assessors of the community and add an additional property tax to bills for amounts not paid by employer.

Based on these laws and assumptions, the pensions plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The Board selected 7.75% as the long term expectation of investment returns. The average return for the 29 years ending as of December 31, 2013 was 9.04%. The average return for the past 5 years ending December 31, 2013 was 12.04%.

Assets

The Net Position Restricted for Pensions, shown in page 7, is \$133,227,835. The 2013 Annual Statement of the Financial Condition contains the values for previous years and the changes in Net Position Restricted for Pensions. Investments are reported at fair value.

Net Pension Liability as of December 31, 2013 – GASB Statement No. 67

The following presents the net pension liability of the system calculated using the discount rate of 7.75%, as well as what the system's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Total Pension Liability	\$ 174,981,409	\$ 158,134,597	\$ 143,728,004
Plan Fiduciary Net Position	<u>\$ 133,227,835</u>	<u>\$ 133,227,835</u>	<u>\$ 133,227,835</u>
Net Pension Liability	\$ 41,753,574	\$ 24,906,762	\$ 10,500,169

The Plan Fiduciary Net Position as a percentage of the Total Pension Liability is 84.2%.

Net Pension Liability as of June 30, 2014 – GASB Statement No. 68

The following presents the net pension liability of the system calculated using the discount rate of 7.75%, as well as what the system's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Total Pension Liability	\$ 178,687,767	\$ 161,484,115	\$ 146,772,370
Plan Fiduciary Net Position*	<u>\$ 137,268,899</u>	<u>\$ 137,268,899</u>	<u>\$ 137,268,899</u>
Net Pension Liability	\$ 41,418,868	\$ 24,215,216	\$ 9,503,471

*Estimated

The Plan Fiduciary Net Position as a percentage of the Total Pension Liability is 85.0%.

Schedules of Required Supplementary Information

	<u>2013</u>
Total Pension Liability – Beginning	n/a
Total Pension Liability – Ending (a)	\$ 158,134,597
Plan Fiduciary Net Position – Beginning	n/a
Plan Fiduciary Net Position – Ending (b)	\$ 133,227,835
Net Pension Liability – Ending (a) – (b)	\$ 24,906,762
Plan Fiduciary Net Positions as a percentage of the Total Pension Liability	84.2%
Covered-employee payroll	\$ 32,850,691
Net Pension Liability as a percentage of Covered-employee Payroll	75.8%

EXHIBITS

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Age/Service Distribution with Salary as of January 1, 2014

Attained Age	Average Salary	<5	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
< 20	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
20-24	34	1	0	0	0	0	0	0	0	0	35
	32,466	0	0	0	0	0	0	0	0	0	32,929
25-29	69	7	0	0	0	0	0	0	0	0	76
	38,965	55,396	0	0	0	0	0	0	0	0	40,479
30-34	27	16	1	0	0	0	0	0	0	0	44
	35,855	55,932	66,685	0	0	0	0	0	0	0	43,857
35-39	22	11	9	2	0	0	0	0	0	0	44
	48,485	63,931	71,136	61,446	0	0	0	0	0	0	57,568
40-44	21	17	9	14	1	0	0	0	0	0	62
	46,100	55,007	68,821	81,415	81,307	0	0	0	0	0	60,383
45-49	17	21	18	7	8	12	0	0	0	0	83
	32,431	53,627	60,450	63,732	69,296	73,301	0	0	0	0	55,972
50-54	21	25	14	13	7	13	11	0	0	0	104
	40,434	38,793	48,124	59,544	63,105	66,554	81,601	0	0	0	52,608
55-59	18	27	18	10	8	14	7	7	1	110	
	39,105	46,364	43,765	48,060	68,522	78,607	62,762	63,841	95,417	53,222	
60-64	6	9	11	12	9	2	3	6	2	60	
	31,596	47,069	41,173	51,755	44,348	101,110	69,659	78,014	86,891	52,323	
65-69	2	4	6	7	3	4	0	0	0	26	
	34,348	41,685	53,505	46,122	43,503	64,435	0	0	0	48,028	
70+	0	0	0	1	0	0	1	0	0	2	
	0	0	0	18,827	0	0	37,066	0	0	27,947	
Total Employees	237	138	86	66	36	45	22	13	3	646	
Average Salary	38,641	49,705	54,068	59,488	59,867	73,450	71,954	70,383	89,733	50,852	

Retiree Distribution as of January 1, 2014

Attained Age	Number of Employees			Total Payments		
	Male	Female	Total	Male	Female	Total
< 20	0	0	0	0	0	0
20-24	0	0	0	0	0	0
25-29	0	0	0	0	0	0
30-34	0	0	0	0	0	0
35-39	0	0	0	0	0	0
40-44	0	0	0	0	0	0
45-49	2	1	3	20,740	16,659	37,398
50-54	4	2	6	101,388	17,784	119,172
55-59	11	3	14	668,326	32,847	701,173
60-64	19	19	38	695,268	282,185	977,453
65-69	27	40	67	1,119,065	661,006	1,780,071
70-74	34	45	79	1,056,413	678,396	1,734,810
75-79	20	24	44	608,413	373,387	981,799
80-84	18	28	46	505,089	379,863	884,953
85-89	9	20	29	184,492	185,970	370,461
90-94	9	17	26	162,098	150,484	312,582
95+	3	6	9	19,211	38,910	58,121
Total	156	205	361	5,140,503	2,817,491	7,957,994
Average (Age/Payment)	72.88	75.78	74.53	32,952	13,744	22,044
Frequency Percent	43.2	56.8	100.0	64.6	35.4	100.0

Disabled Retiree Distribution as of January 1, 2014

Attained Age	Number of Employees			Total Payments		
	Male	Female	Total	Male	Female	Total
< 20	0	0	0	0	0	0
20-24	0	0	0	0	0	0
25-29	0	0	0	0	0	0
30-34	0	0	0	0	0	0
35-39	0	1	1	0	45,512	45,512
40-44	0	0	0	0	0	0
45-49	1	0	1	2,738	0	2,738
50-54	2	0	2	46,636	0	46,636
55-59	5	0	5	218,783	0	218,783
60-64	4	0	4	103,561	0	103,561
65-69	1	0	1	35,990	0	35,990
70-74	8	0	8	176,765	0	176,765
75-79	3	0	3	82,735	0	82,735
80-84	4	0	4	75,731	0	75,731
85-89	2	0	2	28,671	0	28,671
90-94	0	0	0	0	0	0
95-99	0	0	0	0	0	0
Total	30	1	31	771,610	45,512	817,122
Average (Age/Payment)	69.0	37.2	68.0	25,720	45,512	26,359
Frequency Percent	96.8	3.2	100.0	94.4	5.6	100.0

EXHIBIT 4 - CASHFLOW FORECAST:

The following is a 30 year forecast of benefit payments net of state reimbursable COLA payments, Contribution Income and Investment Returns.

Plan Year Ending	Benefit Payments	Employee Contributions	Employer Contributions	Investment Returns	Net change in plan assets
2014	\$9,789,536	\$2,860,304	\$5,005,537	\$10,099,298	\$8,175,603
2015	10,400,421	3,019,794	5,255,537	10,371,213	8,246,122
2016	11,028,588	3,187,846	5,505,537	10,996,645	8,661,441
2017	11,744,387	3,364,907	5,755,537	11,650,784	9,026,841
2018	12,342,109	3,551,449	6,005,537	12,337,588	9,552,464
2019	12,975,050	3,747,965	6,255,537	13,063,648	10,092,100
2020	13,598,797	3,954,976	6,505,537	13,831,749	10,693,465
2021	14,215,376	4,173,029	6,755,537	14,646,603	11,359,793
2022	14,776,399	4,402,698	7,005,537	15,515,093	12,146,929
2023	15,303,620	4,644,586	7,255,537	16,445,763	13,042,267
2024	15,811,146	4,899,329	2,250,590	17,039,216	8,377,989
2025	16,335,503	5,167,593	2,234,109	17,988,284	9,054,483
2026	16,877,251	5,450,080	2,281,340	18,676,013	9,530,182
2027	17,436,964	5,747,526	2,328,297	19,400,375	10,039,233
2028	18,015,240	6,060,706	2,374,860	20,163,958	10,584,284
2029	18,612,694	6,390,434	2,420,899	20,969,557	11,168,196
2030	19,229,961	6,737,564	2,466,273	21,820,189	11,794,065
2031	19,867,699	7,102,996	2,510,828	22,719,115	12,465,239
2032	20,526,588	7,487,672	2,554,399	23,669,851	13,185,334
2033	21,207,327	7,892,586	2,596,806	24,676,200	13,958,265
2034	21,910,642	8,318,780	2,637,858	25,742,263	14,788,259
2035	22,637,282	8,693,125	2,756,562	26,867,484	15,679,889
2036	23,388,020	9,084,315	2,880,607	28,061,194	16,638,096
2037	24,163,656	9,493,109	3,010,234	29,328,537	17,668,225
2038	24,965,014	9,920,299	3,145,695	30,675,069	18,776,049
2039	25,792,949	10,366,713	3,287,251	32,106,794	19,967,810
2040	26,648,340	10,833,215	3,435,177	33,630,200	21,250,251
2041	27,532,100	11,320,710	3,589,760	35,252,294	22,630,664
2042	28,445,169	11,830,142	3,751,299	36,980,653	24,116,925
2043	29,399,892	12,362,498	3,920,108	38,823,027	25,705,741

EXHIBIT 5 – SUMMARY OF PLAN PROVISIONS:

This summary is prepared in accordance with Chapter 32 as of January 1, 2014, and does not take into account any subsequent changes.

1. Administration

Each of the 105 contributory retirement systems for public employees of the Commonwealth of Massachusetts are guided by the applicable provisions of Chapter 32 of the Massachusetts General Laws and other applicable statutes. Although these boards operate semi-independently, there is a uniform set of rules governing benefits, eligibility, contributions, financing, and accounting.

2. Participation

Participation is mandatory for all full-time employees whose employment commences prior to age 65. Eligibility with respect to part-time, professional, temporary, or intermittent employment is governed by the local board. Membership is optional for certain elected officials, State officials appointed by the Governor, and certain hospital interns.

There are four classes of membership as follows:

- (i) Group 1: Most general employees in State and local government
- (ii) Group 2: Certain specified hazardous duty positions
- (iii) Group 3: State police officers and inspectors
- (iv) Group 4: Local police officers, firefighters, and designated employees of the municipal light department.

For members in more than one group, participation will be proportional.

Chapter 176 of the Acts of 2011 created different plan provisions within these groups for those hired on or after April 2, 2012.

3. **Salary**

Salary is defined as gross regular compensation. Salary does not include bonuses, overtime, severance pay, unused sick leave credit, or other similar compensation.

4. **Member Contributions**

Member contributions vary depending upon date hired as follows:

<u>Date of Hire</u>	<u>Member Contribution Rate</u>
Prior to 1975	5.0% of Salary
1975 to 1983	7.0% of Salary
1984 to 1996	8.0% of Salary
1996 and Later plus	9.0% of Salary
1979 and Later	2.0% of Salary in excess of \$30,000

For Group 1 employees who become members on or after April 2, 2012, the Contribution Rate shall be 6% after the completion of 30 years of service.

5. **Average Salary**

Average salary is used to determine a participant's benefit. It is defined as the average salary during the three consecutive-year period that produces the highest average. (Alternatively, if a greater amount results, it is the average rate of salary earned during the period or periods, whether or not consecutive, that constitutes the last three years preceding retirement.). For employees who become members on or after April 2, 2012, the averaging period shall be five years.

6. **Creditable Service**

In general, creditable service is awarded during the period in which a member contributes to the retirement system.

7. Service Retirement

a. Eligibility:

For an employee to be eligible for service retirement (also referred to as superannuation), one of the following conditions must be met:

- (i) completion of 20 years of service
- (ii) for an employee hired prior to January 1, 1978, attainment of age 55 as an active member
- (iii) for an employee hired on or after January 1, 1978, attainment of age 55 as an active member and completion of ten years of service
- (iv) for a Group 1 employee hired on or after April 2, 2012, attainment of age 60 and completion of ten years of service

b. Benefit Amount:

The retirement allowance is determined as a product of the participant's Benefit Rate times Average Salary times Creditable Service, where Benefit Rate is determined from the following table for those hired prior to April 2, 2012:

<u>Age at Retirement</u>	<u>Percentage of Average Salary</u>		
	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
65 or Over	.025	.025	.025
64	.024	.025	.025
63	.023	.025	.025
62	.022	.025	.025
61	.021	.025	.025
60	.020	.025	.025
59	.019	.024	.025
58	.018	.023	.025
57	.017	.022	.025
56	.016	.021	.025
55	.015	.020	.025
54	.014	.014	.024
53	.013	.013	.023
52	.012	.012	.022
51	.011	.011	.021
50	.010	.010	.020
49	.009	.009	.019
48	.008	.008	.018
47	.007	.007	.017
46	.006	.006	.016
45	.005	.005	.015
44	.004	.004	.004
43	.003	.003	.003
42	.002	.002	.002
41	.001	.001	.001

For those hired after April 1, 2012 who retire with less than 30 years of service, the following rates are applied:

<u>Age at Retirement</u>	<u>Percentage of Average Salary</u>		
	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
67 or Over	.0250	.0250	.0250
66	.0235	.0250	.0250
65	.0220	.0250	.0250
64	.0205	.0250	.0250
63	.0190	.0250	.0250
62	.0175	.0250	.0250
61	.0160	.0235	.0250
60	.0145	.0220	.0250
59		.0205	.0250
58		.0190	.0250
57		.0175	.0250
56		.0160	.0235
55		.0145	.0220
54			.0205
53			.0190
52			.0175
51			.0160
50			.0145

For those hired after April 1, 2012 who retire with at least 30 years of service, the following rates are applied:

<u>Age at Retirement</u>	<u>Percentage of Average Salary</u>		
	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
67 or Over	.02500	.02500	.02500
66	.02375	.02500	.02500
65	.02250	.02500	.02500
64	.02125	.02500	.02500
63	.02000	.02500	.02500
62	.01875	.02500	.02500
61	.01750	.02375	.02500
60	.01625	.02250	.02500
59		.02125	.02500
58		.02000	.02500
57		.01875	.02500
56		.01750	.02375
55		.01625	.02250
54			.02125
53			.02000
52			.01875
51			.01750
50			.01625

8. **Deferred Vested Retirement**

a. Eligibility:

A participant who has completed ten or more years of creditable service is eligible for a deferred vested retirement benefit.

b. Benefit Amount:

The participant's accrued benefit is payable commencing at age 55, or may be deferred until later at the employee's option.

c. Refund of Contributions:

In lieu of the deferred pension benefit, a member may elect to receive a refund of their accumulated contributions. Members with ten or more years of service are entitled to 100% of the credited interest on their contributions. Members with five to ten years of service are entitled to 50% of the credited interest on their contributions. No credited interest is provided for members with less than five years of service.

9. Accidental Disability

a. Eligibility:

Participants are eligible for an accidental disability benefit, regardless of service or age, if they become permanently and totally incapacitated for further duty as a result of personal injury sustained while in the performance of duties.

b. Benefit Amount:

The accidental disability amount is 72% of annual salary plus \$751.80 per year for each child plus an additional annuity based upon accumulated Member Contributions with credited interest.

10. Ordinary Disability

a. Eligibility:

An ordinary disability occurs when a member becomes permanently and totally disabled due to sickness or injury that is not job related. In order to be eligible for an ordinary disability benefit, a member must have ten years of service (and be less than age 55 or age 60 if hired on or after April 2, 2012).

b. Benefit Amount:

The ordinary disability amount is equal to the accrued retirement benefit as if the member were age 55 (age 60 if hired on or after April 2, 2012). If the member was a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated Member Contributions plus credited interest. If the participant is over age 55 (age 60 if hired on or after April 2, 2012), he

will receive not less than the superannuation allowance to which he is entitled.

11. Survivor Benefits

a. Occupational Death:

The survivors of a member who dies due to an occupational injury will be entitled to a lump sum return of contributions plus a pension benefit equal to 72% of the participant's annual salary.

b. Non-Occupational Death:

Upon the death of a member other than due to an occupational injury, the designated beneficiary will be entitled to a retirement benefit as if Option C had been elected with a minimum of \$250 per month to the surviving spouse, plus \$120 for the first child, plus \$90 for each additional child. If no beneficiary is designated and if the employee worked two years, and is married at least one year, the spouse may elect benefits. If there is no designated beneficiary or surviving spouse, then member contributions are returned. If there are dependent children but no surviving spouse, they may elect minimum survivor benefits of \$250 per month plus \$120 for the first child and \$90 for each additional child.

c. Refund of Contributions:

Upon the death of a member not entitled to survivor benefits, the beneficiary is entitled to a refund of all member contributions with interest.

12. Cost-of-Living Increases

In accordance with the adoption of Chapter 17 of the Acts of 1997, the granting of a cost-of-living adjustment will be determined by an annual vote by the Retirement Board. The amount of increase will be based upon the Consumer Price Index, limited to a maximum of 3.0%, beginning on July 1. All retirees, disabled retirees, and beneficiaries who have been receiving benefits payments for at least one year as of July 1 are eligible for the adjustment. The maximum amount of pension benefit subject to a COLA is \$12,000. All COLAs granted to members after 1981 and prior to July 1, 1998 are deemed to be an obligation of the State and are not the liability of the Retirement System.

13. Postretirement Death Benefits

Any benefits following the death of a member after retirement are based upon the form of benefit the participant elected at the time of retirement. There are three available forms as follows:

- (i) Option A – Life annuity
- (ii) Option B – Life annuity with death benefit equal to excess of member contributions plus credited interest to retirement over annuity benefit paid to member
- (iii) Option C – Life annuity with 66-2/3% of benefit continued after death of member to designated joint annuitant

EXHIBIT 6 – ACTUARIAL METHODS AND ASSUMPTIONS:

The actuarial cost method, factors, and assumptions used in determining cost estimates are presented below.

1. Member Data

The member data used in the determination of cost estimates consist of pertinent information with respect to the active, inactive, retired, and disabled members of the employer as supplied by the employer to the actuary.

2. Valuation Date

January 1, 2014.

3. Actuarial Cost Method

The costs of the Plan have been determined in accordance with the individual entry age normal actuarial cost method.

4. Rate of Investment Return

It is assumed that the assets of the fund will accumulate at a compound annual rate of 7.75% per annum.

5. Salary Scale

It is assumed that salaries including longevity will increase as follows per year:

<u>Service</u>	<u>Group 1</u>	<u>Group 4</u>
0	0.0575	0.0625
1	0.0525	0.0575
2	0.0525	0.0525
3	0.0475	0.0475
4	0.0475	0.0425
5	0.0425	0.0425
6	0.0425	0.0375
7	0.0375	0.0375
8	0.0375	0.0350
9+	0.0350	0.0350

6. Cost-of-Living Increases

Cost-of-living increases have been assumed to be 3.0% of the lesser of the pension amount and \$12,000 per year.

7. Value of Investments

Assets held by the fund are valued at market value as reported by the Public Employees' Retirement Administration Commission (PERAC). The actuarial value of assets is determined using a five-year smoothing of asset returns greater than or less than the assumed rate of return.

8. Annual Rate of Withdrawal Prior to Retirement

Based on an analysis of experience, the assumed annual rates of withdrawal may best be illustrated by the following rates at the following ages:

<u>Service</u>	<u>General Employees</u>	<u>Police and Fire Employees</u>
0	0.1500	0.0150
10	0.0540	0.0150
20	0.0200	0.0000
30	0.0000	0.0000

9. Annual Rate of Mortality

It is assumed that both pre-retirement and post retirement mortality are represented by the RP-2000 Mortality Table for males and females, adjusted to 2019 with Scale AA. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years for all disabled members.

10. Service Retirement

Based on an analysis of experience, the assumed annual retirement rates are illustrated at the following ages for those hired prior to April 2, 2012:

<u>Age</u>	<u>Male General Employees</u>	<u>Female General Employees</u>	<u>Male and Female Police and Fire Employees</u>
50	0.0100	0.0150	0.02000
51	0.0100	0.0150	0.02000
52	0.0100	0.0200	0.02000
53	0.0100	0.0250	0.05000
54	0.0200	0.0250	0.07500
55	0.0200	0.0550	0.15000
56	0.0250	0.0650	0.10000
57	0.0250	0.0650	0.10000
58	0.0500	0.0650	0.10000
59	0.0650	0.0650	0.15000
60	0.1200	0.0500	0.20000
61	0.2000	0.1300	0.20000
62	0.3000	0.1500	0.25000
63	0.2500	0.1250	0.25000
64	0.2200	0.1800	0.30000
65	0.4000	0.1500	1.00000
66	0.2500	0.2000	1.00000
67	0.2500	0.2000	1.00000
68	0.3000	0.2500	1.00000
69	0.3000	0.2000	1.00000
70	1.0000	1.0000	1.00000

Based on an analysis of experience, the assumed annual retirement rates are illustrated at the following ages for those hired on or after April 2, 2012:

<u>Age</u>	<u>Male General Employees</u>	<u>Female General Employees</u>	<u>Male and Female Police and Fire Employees</u>
50	0.0000	0.0000	0.0100
51	0.0000	0.0000	0.0100
52	0.0000	0.0000	0.0200
53	0.0000	0.0000	0.0200
54	0.0000	0.0000	0.0200
55	0.0000	0.0000	0.0500
56	0.0000	0.0000	0.0750
57	0.0000	0.0000	0.1500
58	0.0000	0.0000	0.1000
59	0.0000	0.0000	0.1000
60	0.0500	0.0650	0.1000
61	0.0650	0.0650	0.1500
62	0.2000	0.1500	0.2000
63	0.2000	0.1300	0.2000
64	0.3000	0.1500	0.3000
65	0.2500	0.1250	1.0000
66	0.2200	0.1800	1.0000
67	0.4000	0.2500	1.0000
68	0.3000	0.2000	1.0000
69	0.3000	0.2000	1.0000
70	1.0000	1.0000	1.0000

12. Annual Rate of Disability Prior to Retirement

Based on an analysis of experience, the assumed annual rates of disability may best be illustrated by the following probabilities at the following ages:

<u>Attained Age</u>	<u>General Employees</u>	<u>Police and Fire Employees</u>
20	0.0001	0.0020
30	0.0003	0.0060
40	0.0010	0.0060
50	0.0019	0.0250

In addition, it is assumed for the general employees that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).

13. Family Composition

It is assumed that 80% of all members will be survived by a spouse and that females (males) are three years younger (older) than members.

14. Administrative Expenses

The normal cost is increased by an amount equal to the anticipated administrative expenses for the upcoming fiscal year. The amount for fiscal year 2015 is \$200,000. The costs are anticipated to increase at 4.5% per year.

EXHIBIT 7 – GLOSSARY OF TERMS:

This glossary summarizes the technical terms contained in this report.

1. **Actuarial Accrued Liability**

That portion of the Actuarial Present Value of plan benefits that is not provided for by future employer Normal Costs or employee contributions.

2. **Actuarial Assumptions**

Assumptions as to the occurrence of future events affecting the Retirement System such as:

- Rates of investment returns
- Increases in a member's salary
- Inflation
- The probability of mortality, turnover, disablement
- Retirement at each age and other relevant items

3. **Actuarial Cost Method**

A procedure for allocating the Actuarial Present Value of pension plan benefits between Normal Cost and Actuarial Accrued Liability.

4. **Actuarial Present Value**

The single sum amount required at the valuation date that is required to provide for anticipated future events based upon the terms of the plan and the Actuarial Assumptions.

5. **Forecast**

A projection of future benefit payments or contribution requirements based upon the terms of the plan, the current asset amounts, the Actuarial Assumptions, and additional assumptions as to the replacement of terminating employees with new employees.

6. Normal Cost

That portion of the Actuarial Present Value of future benefits that is assigned to the current year.

7. Unfunded Actuarial Accrued Liability

That portion of the Actuarial Accrued Liability that is not provided for by current actuarial value of assets.

8. Valuation Method

The method used to divide the cost of future benefits among the Actuarial Accrued Liability, the current year's Normal Costs, and future years' Normal Costs. The resulting current funding requirement is then determined as the current year's Normal Cost plus the payment necessary to amortize the Unfunded Actuarial Liability.

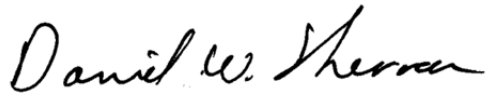
9. Vested Liability

That portion of the Actuarial Present Value of Accrued Benefits that a member would be entitled to if the member terminated employment with the employer as of the valuation date.

CERTIFICATION:

This report fairly represents the actuarial position of the Town of Lexington Retirement System contributing as of January 1, 2014, in accordance with generally accepted actuarial principles applied consistently with the preceding valuation. In our opinion, the actuarial assumptions used to compute actuarial accrued liability and normal cost are reasonably related to plan experience and to reasonable expectations, and represents our best estimate of anticipated plan experience.

Sherman Actuarial Services, LLC



Daniel W. Sherman, ASA, MAAA
Enrolled Actuary No. 11-4086

October, 2014

BREAKOUTS

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Breakouts

	<u>Total</u>	<u>General</u>	<u>Fire and Police</u>	<u>Housing Authority</u>	<u>Sewer and Water</u>	<u>School Administration</u>
(1) Payroll of Active Participants	\$32,850,691	\$13,608,653	\$8,393,078	\$435,355	\$557,486	\$9,856,120
Percentage of Total Payroll	100.00%	41.43%	25.55%	1.33%	1.70%	30.00%
(2) Actuarial Accrued Liability	\$158,134,597	\$69,817,324	\$60,813,787	\$915,964	\$3,578,215	\$23,009,307
(3) Assets	\$130,168,913	\$57,470,316	\$50,059,030	\$753,978	\$2,945,417	\$18,940,172
(4) Unfunded Actuarial Accrued Liability	\$27,965,684	\$12,347,008	\$10,754,757	\$161,986	\$632,798	\$4,069,135
(5) Total Employer Contributions						
(a) Amortizations	4,821,081	2,128,535	1,854,042	27,925	109,090	701,489
(b) Employer Normal Cost	1,413,856	463,466	579,566	24,420	19,569	326,835
(c) Administrative Expenses	<u>200,000</u>	<u>82,852</u>	<u>51,098</u>	<u>2,650</u>	<u>3,394</u>	<u>60,006</u>
(d) Total Appropriation	6,434,937	2,674,853	2,484,706	54,995	132,053	1,088,330
Percent of Total Appropriation	100.00%	41.57%	38.61%	0.85%	2.05%	16.91%
(6) Fiscal 2015 Appropriation	\$5,005,537	\$2,053,534	\$1,278,865	\$86,383	\$84,944	\$1,501,811
Percent of Total Appropriation	100.00%	41.03%	25.55%	1.73%	1.70%	30.00%
(7) Fiscal 2016 Appropriation	\$5,255,537	\$2,177,159	\$1,342,737	\$69,636	\$89,186	\$1,576,819
Percent of Total Appropriation	100.00%	41.43%	25.55%	1.33%	1.70%	30.00%
(8) Fiscal 2017 Appropriation	\$5,505,537	\$2,280,724	\$1,406,610	\$72,948	\$93,429	\$1,651,826
Percent of Total Appropriation	100.00%	41.43%	25.55%	1.33%	1.70%	30.00%

Fiscal 2015 - 2017 Appropriations based on covered payroll.